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Corp report

ESSEX PACKERS LIMITED
HAMILTON, ONTARIO

1972 ANNUAL REPORT

Essex Packers Limited

DIRECTORS

O. W. DURDIN, M.B.E., Q.C.

C. J. McKEE E. D. GOULDING

J. A. McPHARLIN L. S. LEE

H. POWOROZNYK R. M. PTOLEMY

OFFICERS

J. A. McPHARLIN
Chairman of the Board

C. J. McKEE
President and General Manager

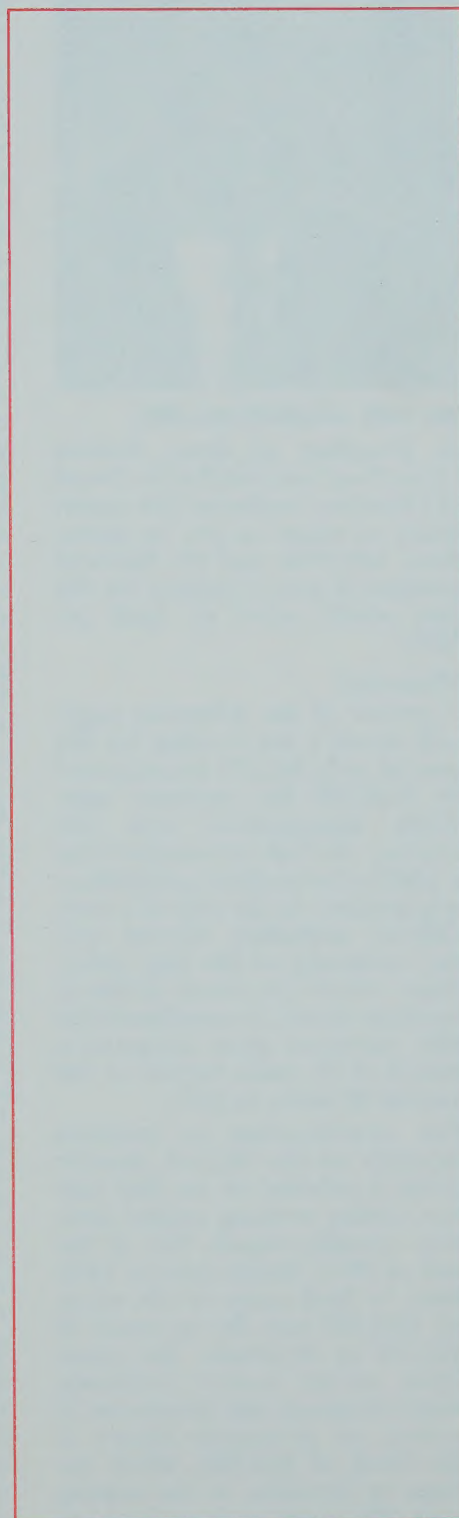
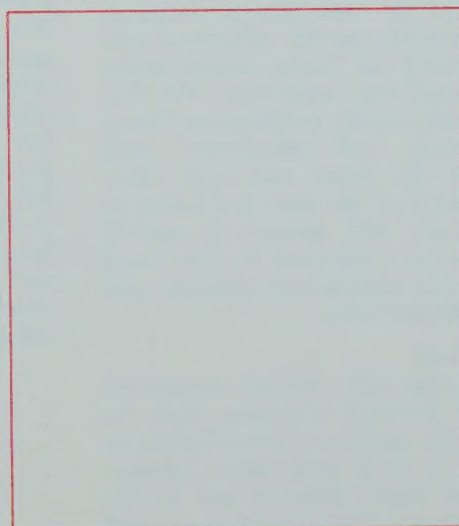
G. N. SEIFRIED
Secretary-Treasurer

AUDITORS

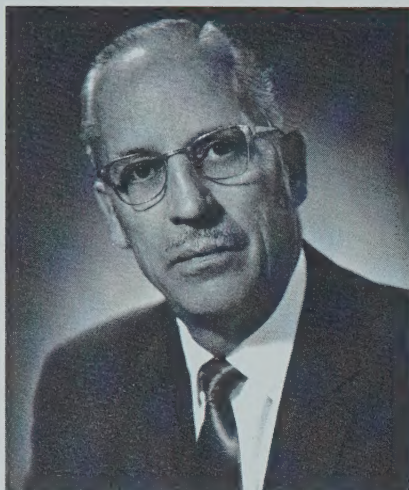
MCDONALD, CURRIE & Co.
Chartered Accountants

PLANTS

HAMILTON — ST. CATHARINES



President's Report



TO THE SHAREHOLDERS

As President of Essex Packers Limited and on behalf of its Board of Directors, I welcome this opportunity to report to you on operations, activities and the financial position of your Company for the year which ended on April 1st, 1972.

Financial

A review of the following pages will reveal a net earning for the year of only \$47,066 as compared to \$118,558 the previous year. While disappointed with this decline, we feel encouraged that a profit of even these proportions was realized in the face of a very difficult marketing climate and the continuity of the cost spiral. Sales volume remained relatively constant when it is considered that the previous year spanned a period of 53 weeks instead of the normal 52 weeks in 1972.

Our determination to maintain liquidity at the highest possible point is reflected in the fact that our closing working capital position virtually equals that at the end of 1971, despite interim additions to fixed assets in the range of \$121,000 and the payment of \$28,136 in dividends. The latter figure covers current preference stock dividends and abatement of arrears on preference shares to the level of \$14,100, which we hope to liquidate in the coming year. We propose to prolong our

present program of capital conservation and improvement as a standard policy during 1972-1973.

Operations

The past year was one in which we were exposed to pressures from several different sources. Surplus stocks of pork which developed in western Canada moved eastward into the Ontario market at extremely competitive prices and this situation was further aggravated by the sporadic importation of similar pork cuts by the larger retailers. In addition, the return on exports to the U.S. was reduced in proportion to the decline in the value of the U.S. dollar. At the same time, the general price structure of our products was continuously subjected to heavy back pressure by certain large customers who seem intent on fanning the flames of a retail price war. Such combined developments demanded a maximum of marketing skills and finely tuned controls. We feel, however, that these difficulties were minimized in their impact through the careful, conscientious efforts of your Management group.

I am pleased to advise that further productivity gains were attained in 1972 which not only afforded welcome economies but also contributed to the elevation of quality standards in all product lines. Again, our facilities were upgraded by expenditures designed to promote greater efficiency and to satisfy the rising requirements of inspection authorities. We feel that this steady emphasis on "men, methods, and machinery" will serve the short and long term interests of the firm and assist us to cope with escalating payroll costs, as evidenced by the most recently established contract with our labour force.

Outlook

In a year when we are confronted with Federal elections, both in Canada and the United States, as well as at a time when international trade patterns are in the process of renegotiation and

change, it becomes even more difficult to foresee the immediate course of our economy. The steady and persistent growth of governmental intervention and regulation is already of deep concern to the business sector and with further proposals for restrictive controls still pending final decision, an atmosphere of uncertainty prevails.

With the per capita consumption of meat on the increase and the estimated marketings of livestock lower, we may anticipate steady demand at higher prices. This situation may initially place an added strain on profit margins but should create more stability in marketing conditions.

I am pleased to inform you that we have enjoyed profitable operations for the first month of our new fiscal year and are satisfied that this trend will project into the foreseeable future.

Appreciation

One of the most important assets of our Company is that large group of dedicated employees and staff members who have so consistently performed in an admirable and effective manner during a difficult year. In expressing my appreciation for their co-operative effort, I would particularly like to thank the Management group for their loyalty, diligence and perseverance.

We are also grateful for the patronage and good will of the consuming public and the cordial relationship we have enjoyed with our customers, suppliers and shareholders. On behalf of our Directors, I extend sincere thanks to all, accompanied by a request for continuing confidence and support as we face the future with renewed enthusiasm and determination.

A handwritten signature in dark ink, appearing to read "C. J. McKee".

C. J. McKEE, President

Auditors' Report

TO THE SHAREHOLDERS

We have examined the balance sheet of Essex Packers Limited as at April 1, 1972 and the statements of earnings, retained earnings, contributed surplus and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at April 1, 1972 and the results of its operations and the source and use of its working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

**MCDONALD, CURRIE & Co.,
Chartered Accountants**

Windsor, Ontario
April 18, 1972

Essex Packers Limited

Comparative Balance Sheet

as at April 1, 1972

Assets

CURRENT ASSETS

	1972	1971
	\$	\$
Cash	—	3,455
Accounts receivable (note 1)		
Trade	1,449,782	1,205,217
Other	16,434	19,979
Inventories — at the lower of cost or net realizable value (notes 1 and 2)	1,597,175	1,328,208
Income taxes	50,507	—
Prepaid expenses	52,388	40,949
	<u>3,166,286</u>	<u>2,597,808</u>

FIXED ASSETS (notes 1 and 5)

	Cost	Accumulated depreciation		
	\$	\$		
Land	74,757	—	74,757	74,757
Buildings	639,300	327,701	311,599	324,846
Machinery and equipment ..	1,752,389	1,330,045	422,344	382,248
Trucks and autos	214,814	175,920	38,894	51,603
	<u>2,681,260</u>	<u>1,833,666</u>	<u>847,594</u>	<u>833,454</u>

OTHER ASSETS

7½% mortgage loan receivable	8,063	12,075
Sinking Fund Bank (note 3)	31,975	24,130
Goodwill — at nominal value	<u>1</u>	<u>1</u>
	40,039	36,206
	<u>4,053,919</u>	<u>3,467,468</u>

Signed on Behalf of the Board

J. A. McPHARLIN
Director

C. J. McKEE
Director

Liabilities

CURRENT LIABILITIES

	1972	1971
	\$	\$
Bank advances (note 1)	1,456,610	806,000
Accounts payable – trade	462,272	448,106
Other accounts payable and accrued liabilities	389,753	391,755
Income taxes	—	93,121
	<u>2,308,635</u>	<u>1,738,982</u>

Shareholders' Equity

CAPITAL STOCK

Authorized –

12,388 5% cumulative sinking fund first preference
shares with a par value of \$50 redeemable at
\$52.50 (note 3)

140,000 common shares without par value

Issued and fully paid –

7,388 preference shares (note 3)	369,400	375,650
140,000 common shares	<u>700,000</u>	<u>700,000</u>
	1,069,400	1,075,650

CONTRIBUTED SURPLUS	38,789	36,119
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RETAINED EARNINGS	<u>637,095</u>	<u>616,717</u>
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	<u>1,745,284</u>	<u>1,728,486</u>
	<u>4,053,919</u>	<u>3,467,468</u>

Essex Packers Limited

Statements of Retained Earnings and Contributed Surplus

for the year ended April 1, 1972

Retained Earnings

APPROPRIATED AS A RESERVE FOR REDEMPTION OF FIRST PREFERENCE SHARES (note 3)

	1972	1971
	\$	\$
Balance — beginning of year	34,107	24,129
Add: Transfer from unappropriated retained earnings corresponding to amount to be deposited in sinking fund bank	1,893	9,977
Interest earned on sinking fund bank deposits ..	<u>1,448</u>	<u>1</u>
	37,448	34,107
Less: Transfer to unappropriated retained earnings corresponding to amount paid on redemption of preference shares	<u>3,580</u>	<u>—</u>
Balance — end of year	<u>33,868</u>	<u>34,107</u>

UNAPPROPRIATED

Balance — beginning of year	582,610	492,812
Add: Net earnings for the year	47,066	118,558
Transfer from reserve for redemption of first preference shares	<u>3,580</u>	<u>—</u>
	50,646	118,558
	<u>633,256</u>	<u>611,370</u>
Less: Dividends on first preference shares	28,136	18,783
Transfer to reserve for redemption of first preference shares	<u>1,893</u>	<u>9,977</u>
	30,029	28,760
Balance — end of year	<u>603,227</u>	<u>582,610</u>
TOTAL BALANCE — End of Year	<u>637,095</u>	<u>616,717</u>

Contributed Surplus

BALANCE — Beginning of Year	36,119	36,119
Excess of par value of preference shares redeemed over redemption price	<u>2,670</u>	<u>—</u>
BALANCE — End of Year	<u>38,789</u>	<u>36,119</u>

Essex Packers Limited

Statement of Earnings

for the year ended April 1, 1972

	1972 \$	1971 \$
SALES	32,988,649	33,619,730
EARNINGS FROM OPERATIONS BEFORE THE FOLLOWING — ..	301,375	466,422
Provision for depreciation	107,072	103,193
Remuneration of directors and senior officers as defined by The Business Corporations Act, 1970	143,892	148,368
EARNINGS BEFORE INCOME TAXES	250,964	251,561
PROVISION FOR INCOME TAXES	50,411	214,861
EARNINGS BEFORE EXTRAORDINARY ITEM	10,345	104,303
EXTRAORDINARY ITEM	40,066	110,558
Reduction in income taxes upon application of losses of prior years (Note 7)	7,000	8,000
NET EARNINGS FOR THE YEAR	47,066	118,558
EARNINGS PER SHARE		
Earnings before extraordinary item	0.15	0.66
Net earnings for the year	0.20	0.71

Notes to Financial Statements

for the year ended April 1, 1972

1. SECURITY FOR BANK LOANS

Book debts and inventories have been specifically pledged as security for bank loans; as additional collateral security, the company granted to the bank by a debenture, under a pledge agreement, a first fixed and specific charge on all the company's real property and a floating charge on all of its assets; the debenture being limited in its aggregate principal amount to \$1,700,000.

2. INVENTORIES

Inventories are summarized as follows:

	1972 \$	1971 \$
Product	1,381,663	1,070,270
Supplies	215,512	257,938
	1,597,175	1,328,208

3. RESERVE FOR REDEMPTION OF FIRST PREFERENCE SHARES

In accordance with the conditions attaching to the first preference shares contained in the Letters Patent of the company, and pursuant to the opinion of the company's solicitor, this amount has been set aside as a reserve with a related sinking fund to be maintained for the redemption or purchase of first preference shares. During the year 125 shares were purchased for cash.

4. PROVINCIAL TAX CREDIT

Tax credits of \$5,800 arising from the company's purchases of machinery and equipment in 1972 are carried forward and are available for the reduction of provincial income taxes in future years.

5. DEPRECIATION EXPENSE

A portion of the company's investment in fixed assets (approximately \$174,000) is not eligible for tax deductible depreciation. Since the company records this expense in its accounts on the same basis and in same amounts as it claims for tax purposes, no charge has been made against the company's income of the current or preceding fiscal years respecting the depreciation applicable to the above-mentioned portion of its fixed assets.

Depreciation expense charged was \$107,072 for the year ended April 1, 1972 and \$103,193 for the year ended April 3, 1971.

6. DIVIDEND ARREARS

First preference share cumulative dividend arrears amounted to \$14,100 as at April 1, 1972.

7. EXTRAORDINARY ITEM

Income taxes have been reduced for tax accounting purposes by the application of a prior loss of \$46,000 on disposal of the Windsor plant; an additional loss of \$66,000 previously deducted for financial accounting purposes, remains available to reduce taxes payable in future years.

Essex Packers Limited

Statement of Source and use of Working Capital

for the year ended April 1, 1972

Source of Working Capital

From operations

	1972 \$	1971 \$
Net earnings for the year	47,066	118,558
Item not affecting working capital		
Depreciation	<u>107,072</u>	<u>103,193</u>
	154,138	221,751
Proceeds from disposal of fixed assets	4,550	4,000
Collections on mortgage receivable	<u>4,012</u>	<u>5,128</u>
	<u>162,700</u>	<u>230,879</u>

Use of Working Capital

Purchase of fixed assets	125,762	63,413
Transfer of cash to sinking fund account	9,977	24,104
Dividends	<u>28,136</u>	<u>18,783</u>
	<u>163,875</u>	<u>106,300</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(1,175)	124,579
WORKING CAPITAL — BEGINNING OF YEAR	<u>858,826</u>	<u>734,247</u>
WORKING CAPITAL — END OF YEAR	<u>857,651</u>	<u>858,826</u>

This is how each \$100.00 of sales was distributed.



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INTERIM REPORT TO SHAREHOLDERS



for the 24 weeks ended September 16, 1972

To the Shareholders:

Your Company's operations for the 24 weeks ended September 16th, 1972 showed a loss of \$38,426 compared to a net earnings after tax the previous year of \$50,403.

The working capital position at the present time is \$821,647 compared to the year end of \$857,651, or a decrease of \$36,004.

Sales volume for the year to date shows an increase of 14.8%. At the same time, operating expenses have declined by 3%, even though an upward wage adjustment became effective April 3, 1972.

Despite the apparent advantage of improved sales volume and expense control, we have been unable to fully recover the higher cost of live-stock and other raw materials through increased selling prices, particularly in the processed meat area. Extremely keen competition, both at the wholesale and retail level in eastern Canada, is another contributing factor leading to our present loss position.

Management is of the opinion that if the present trend is to be arrested and reversed, an improved relationship between material costs and ultimate return must be realized.

October 27, 1972

President

ESSEX PACKERS LIMITED

INTERIM REPORT TO SHAREHOLDERS (Unaudited)

Financial Summary for the 24 weeks ended September 16, 1972

STATEMENT OF EARNINGS

	1972	1971
	\$	\$
Sales	17,641,527	15,366,156
Cost of raw materials	14,029,162	11,509,994
Operating, selling and distribution expense	3,602,191	3,713,599
Depreciation expense	48,600	47,160
	17,679,953	15,270,753
Earnings before income taxes (loss)	(38,426)	95,403
Provision for income taxes		45,000
Net earnings for the period	(38,426)	50,403
Net earnings per share (loss)	(0.31)	0.29

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

Source of working capital		
Net earnings for the period (loss)	(38,426)	50,403
Add: Charge not requiring cash outlay-depreciation	48,600	47,160
	10,174	97,563
Reduction in mortgage receivable	1,956	1,020
Equipment disposals	1,300	1,850
	13,430	100,433
Use of working capital		
Purchase of fixed assets	44,817	—
Payment of dividends	4,617	4,696
	49,434	4,696
Increase (decrease) in working capital	(36,004)	95,737
Working capital — Beginning of period	857,651	858,826
End of period	821,647	954,563